

CHAPTER 1236
INCOME TAX CREDITS AND DEDUCTIONS
S.F. 2294

AN ACT relating to the state individual and corporate income tax by limiting, modifying, eliminating, and changing certain deductions and credits in computing the tax liability, and providing an effective date.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section 56.18, subsection 1, Code Supplement 1985, is amended to read as follows:

1. Any A person whose state income tax liability for any taxable year is one dollar and fifty cents or more may direct that one dollar and fifty cents of such that liability be paid over to the Iowa election campaign fund when submitting the person's state income tax return to the department of revenue. In the case of a joint return of husband and wife having a state income tax liability of ~~two~~ three dollars or more, each spouse may direct that one dollar and fifty cents be paid to the fund. The director of revenue shall draft the income tax form to provide spaces on the tax return which the taxpayer may use to designate that contributions made under this section be credited to a specified political party as defined by section 43.2, or to the Iowa election campaign fund as a contribution to be shared by all such political parties in the manner prescribed by section 56.19. The form shall inform the taxpayer of the consequences of the choices provided under this section, but this information may be contained in a footnote or other suitable form if the director of revenue finds it is not feasible to place the information immediately above the signature line. The action taken by a person for the checkoff is irrevocable.

Sec. 2. Section 56.18, subsections 2 and 3 and unnumbered paragraphs 1 and 2, Code Supplement 1985, are amended by striking the subsections and unnumbered paragraphs.

Sec. 3. Section 422.5, subsection 1, paragraph o, subparagraph (1), Code Supplement 1985, is amended to read as follows:

(1) Add items of tax preference included in federal alternative minimum taxable income under section 57, except subsections (a)(8) and (a)(11), of the Internal Revenue Code of 1954. In the case of an estate or trust, the items of tax preference shall be apportioned between the estate or trust and the beneficiaries in accordance with rules prescribed by the director. For purposes of computing the items of tax preference, the gain or loss from the forfeiture of an installment real estate contract, the transfer of real or personal property securing a debt to a creditor in cancellation of that debt or from the sale or exchange of property as a result of actual notice of foreclosure shall not be taken into account in computing net capital gain if all of the following conditions are met:

Sec. 4. Section 422.5, subsection 1, paragraph o, Code Supplement 1985, is amended by adding the following new subparagraph:

NEW SUBPARAGRAPH. (4) Add the amount by which the aggregate losses from all passive activities, reduced by the aggregate income from passive activities, exceed the sum of the taxpayer's cash basis in passive activities which are not tax shelters plus the lesser of the taxpayer's cash basis in passive activities which are tax shelters or fifty thousand dollars. For purposes of this subparagraph the following apply:

(a) "Tax shelter" means the same as defined in section 461(i)(3) of the Internal Revenue Code of 1954.

(b) "Passive activity" means an activity where a substantial portion of the income from the activity is from a trade or business. Rents and royalties are income from a trade or business. "Passive activity" does not include, except in the case of limited partners, an activity where the taxpayer or taxpayer's spouse materially participates in the activity or provides

substantial personal services for the activity. A loss incurred from a farming business, as defined in section 464(e) of the Internal Revenue Code of 1954, will not be considered for purposes of this subparagraph to the extent that the loss is used in computing net income under section 422.7.

(c) "Cash basis" means in the case of an interest in a partnership, the adjusted basis of the taxpayer's interest determined without regard to any liability of or amount borrowed by the partnership with respect to the partnership which was secured by any assets of the partnership, and in all other cases, the adjusted basis of the taxpayer's interest determined under principles relating to the case of a partnership.

(d) A loss from any activity shall be determined under the principles of section 465(d) of the Internal Revenue Code of 1954 except that to the extent that any deduction is an item of tax preference in this section, that deduction shall not be taken into account.

(e) A loss from an activity that is disallowed under this subparagraph shall be treated as a deduction allowable to that activity in the first succeeding tax year.

(f) If the taxpayer disposes of the taxpayer's entire interest in a passive activity during a tax year, the amount of loss attributed to the activity determined after carryovers in part (e) of this subparagraph, shall be allowed in computing alternative minimum taxable income and shall not be treated as a loss for purposes of this subparagraph.

Sec. 5. Section 422.7, Code Supplement 1985, is amended by adding the following new subsections:

NEW SUBSECTION. Add the combined net losses from passive farming activity in excess of twenty-five thousand dollars that offset income from other sources. Net losses under section 165 of the Internal Revenue Code of 1954, exclusive of net gains incurred passively from the operation of a farming business, as defined in section 464(e) of the Internal Revenue Code of 1954, are to be combined from businesses, rents, partnerships, subchapter S corporations, estates or trusts except losses under sections 1211 and 1231 of the Internal Revenue Code of 1954. For purposes of this subsection the following apply:

a. "Passive activity" means an activity where the taxpayer or a member of the taxpayer's family as defined in section 2032A(e)(2) of the Internal Revenue Code of 1954 does not materially participate in the activity or provide substantial personal services to the farming business. A taxpayer who is retired or disabled as described in section 2032A(b)(4) of the Internal Revenue Code of 1954 or is a surviving spouse as described in section 2032A(b)(5) shall be treated as materially participating in the farming business.

b. A loss from an activity that is disallowed under this subsection shall be treated as a deduction allowable to that activity in the first succeeding tax year.

NEW SUBSECTION. Add the amount of intangible drilling and development costs optionally deducted in the year paid or incurred as allowed under section 263(c) of the Internal Revenue Code of 1954. This amount may be recovered through cost depletion or depreciation, as appropriate under rules prescribed by the director.

NEW SUBSECTION. Add the percentage depletion amount determined with respect to an oil, gas, or geothermal well using methods in section 613 of the Internal Revenue Code of 1954 that is in excess of the cost depletion amount determined under section 611 of the Internal Revenue Code of 1954.

Sec. 6. Section 422.12, subsection 2, unnumbered paragraph 1, Code 1985, is amended to read as follows:

A child and dependent care credit equal to ~~ten~~ forty-five percent of the ~~qualifying employment-related expenses and subject to the same limitations~~ federal child and dependent care credit provided by in section ~~44A~~ 21 of the Internal Revenue Code of 1954.

Sec. 7. Section 422.12, subsection 3, Code 1985, is amended by striking the subsection.

Sec. 8. Section 422.33, subsection 4, Code Supplement 1985, is amended to read as follows:

4. In addition to all taxes imposed under this division, there is imposed upon each corporation doing business within the state a state minimum tax for tax preference equal to seventy percent of the state's apportioned share of the federal minimum tax. The state's apportioned share of the federal minimum tax is a percent equal to the ratio of the federal minimum tax on preferences attributable to Iowa to the federal minimum tax on all preferences. The director shall prescribe rules for the determination of the amount of the federal minimum tax on preferences attributable to Iowa which shall be based as much as equitably possible on the allocation and apportionment provisions of subsections 2 and 3. For purposes of this subsection, "federal minimum tax" means the federal minimum tax for tax preferences computed under sections 55 to 58, except section 57(a)(8), of the Internal Revenue Code of 1954 for the tax year.

Sec. 9. Section 422.35, Code 1985, is amended by adding the following new subsections:

NEW SUBSECTION. Add the combined net losses from passive farming activity in excess of twenty-five thousand dollars that offset income from other sources. Net losses under section 165 of the Internal Revenue Code of 1954, exclusive of net gains incurred passively from the operation of a farming business, as defined in section 464(e) of the Internal Revenue Code of 1954, are to be combined from businesses, rents, partnerships, corporations, estates or trusts except losses under sections 1211 and 1231 of the Internal Revenue Code of 1954. Farming activity is passive if the taxpayer does not materially participate in the activity nor provide substantial services to the farming business. A loss from an activity that is disallowed under this subsection shall be treated as a deduction allowable to that activity in the first succeeding tax year.

NEW SUBSECTION. Add the percentage depletion amount determined with respect to an oil, gas, or geothermal well using methods in section 613 of the Internal Revenue Code of 1954 that is in excess of the cost depletion amount determined under section 611 of the Internal Revenue Code of 1954.

Sec. 10. This Act is retroactive to January 1, 1986, for tax years beginning on or after that date.

Approved May 28, 1986

CHAPTER 1237

NONSUBSTANTIVE CODE CORRECTIONS

H.F. 2065

AN ACT relating to nonsubstantive Code corrections.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Section 18.97, subsections 13 and 14, Code Supplement 1985, are amended by striking the subsections.

Sec. 2. Section 18.100, Code 1985, is amended to read as follows:
18.100 EXCHANGE.

The volumes delivered to the state law library shall be used for the purpose of effecting exchange with other states, foreign countries, and provinces, for similar reports. All books received in such exchange shall become a part of the state library.

Sec. 3. Section 69.3, Code Supplement 1985, is amended to read as follows:
69.3 POSSESSION OF OFFICE.

When a vacancy occurs in a public office, possession shall be taken of the office room, the